

Message Text

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SUBJ: STATUS OF VENEZUELAN OIL NATIONALIZATION

REF: SONANDRES/ASENCIO TELCON 10/28/75

1. BEGIN SUMMARY. ALL OIL COMPANIES SUBJECT TO THE OIL NATIONALIZATION

LAW, WITH THE EXCEPTION OF OCCIDENTAL PETROLEUM AND EL PASO-VENEZUELA OIL COMPANY, ON OCT 28 RESPONDED TO THE OFFER OF COMPENSATION WHICH THEY HAD RECEIVED FROM THE VENEZUELAN GOVERNMENT FIFTEEN DAYS EARLIER ON OCT 13. THE GOV DESCRIBED THE RESPONSES AS ACCEPTANCES OF THE COMPENSATION OFFERS. OCCIDENTAL PETROLEUM WAS NOT TENDERED AN OFFER ON OCT 13, PENDING DISPOSITION OF CHARGES MADE IN A U.S. COURT BY A FORMER EMPLOYEE THAT THE COMPANY HAD BRIBED VENEZUELAN OFFICIALS TO OBTAIN SERVICE CONTRACTS FOR OIL EXPLORATION IN LAKE MARACAIBO, AND A FORMAL INVESTIGATION OF THESE CHARGES BY THE VENEZUELAN CONGRESS NOW IN PROGRESS. EL PASO, WHICH HOLDS A MINOR PARTICIPATION IN A CONCESSION, IS SUBJECT

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TO TAX CLAIMS BY THE GOV WHICH EXCEED THE COMPENSATION BEING

OFFERED TO THE FIRM. EL PASO-VENEZUELA IS NOT CURRENTLY REPRESENTED IN VENEZUELA, AND DID NOT SEND A REPRESENTATIVE TO RECEIVE THE COMPENSATION OFFER OR RESPOND TO IT. END SUMMARY.

2. CARACAS NEWSPAPERS CARRIED BRIEF FRONTPAGE ARTICLES OCT 29 WHICH STATED THAT ALL CONCESSIONAIRES AND OIL COMPANIES HAVING PARTICIPATION IN CONCESSIONS, WITH THE EXCEPTION OF OCCIDENTAL PETROLEUM AND EL PASO-VENEZUELA, RESPONDED TO THE MINISTER OF MINES AND HYDROCARBONS ON OCT 28 BY ACCEPTING THE COMPENSATION OFFER THEY HAD RECEIVED ON OCT 13. THE MINISTER OF MINES SPOKE TO THE PRESS AT 7:00 PM AND SAID THAT ALL FIRMS HAD RESPONDED BY THAT HOUR EXCEPT MENE GRANDE (GULF) AND CHEVRON. (BOTH COMPANIES SUBSEQUENTLY RESPONDED). THE NEWSPAPER REPORTS INDICATE THAT TWENTY-TWO CONCESSIONAIRES AND NINE PARTICIPANT COMPANIES WERE SCHEDULED TO RESPOND. THIS TOTAL INCLUDES SEVERAL OIL COMPANIES HAVING CONCESSION ARRANGEMENTS - UNDER MORE THAN ONE AFFILIATE. TEXACO, FOR EXAMPLE, HAS FOUR AFFILIATES HOLDING CONCESSIONS OR PARTICIPANT AGREEMENTS.

3. IT IS OUR UNDERSTANDING THAT ALL RESPONSES WERE MADE BY LETTER TO THE MINISTER. SOME LETTERS WERE PERSONALLY DELIVERED TO THE MINISTER BY COMPANY EXECUTIVES, AND SOME WERE SENT BY MESSENGER. WE HAVE NOT SEEN ANY OF THE LETTERS, AND THE GOV DOES NOT PLAN TO MAKE

THE CONTENTS OF THE LETTERS PUBLIC. THESE LETTERS DO NOT CONSTITUTE FORMAL ACCEPTANCE OF THE COMPENSATION OFFER. ARTICLE 12 OF THE OIL NATIONALIZATION LAW SIGNED AUG 29, 1975, REQUIRES THAT ACCEPTANCE OF THE COMPENSATION AGREEMENT BE SET FORTH IN A WRITTEN DOCUMENT, AN ACTA. THE ACTA FOR EACH COMPANY ACCEPTING THE COMPENSATION OFFER IS TO BE PREPARED BY THE ATTORNEY GENERAL OF VENEZUELA, AND SIGNED BY HIM AND THE CONCESSIONAIRE. THE ACTA MUST BE IMMEDIATELY SUBMITTED TO THE NATIONAL CONGRESS FOR APPROVAL. CONGRESS MUST ACT ON THE WRITTEN COMPENSATION AGREEMENTS WITHIN THIRTY DAYS.

4. OCCIDENTAL PETROLEUM COMPANY WAS NOT TENDERED A COMPENSATION OFFER FOR ITS SERVICE CONTRACTS IN SOUTH LAKE MARACAIBO ON OCT 13. THE VENEZUELAN GOVERNMENT HAS SUSPENDED NEGOTIATIONS WITH OCCIDENTAL PENDING CLARIFICATION OF BRIBERY CHARGES WHICH WERE LODGED AGAINST THE COMPANY IN A TEXAS COURT CASE, AND SUBSEQUENTLY UNCLASSIFIED

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REPORTED IN A NEW YORK TIMES ARTICLE. THE EX-OCCIDENTAL EMPLOYEE HAS ACCUSED THE COMPANY OF BRIBING VARIOUS VENEZUELAN OFFICIALS AT THE TIME IT ACQUIRED ITS VENEZUELAN SERVICE CONTRACTS. THE VENEZUELAN CONGRESS IS INVESTIGATING THE BRIBERY CHARGES.

5. EL PASO-VENEZUELA OIL COMPANY, A U.S.-OWNED COMPANY INCORPORATED IN VENEZUELA, DID NOT PICK UP OR REPLY TO ITS COMPENSATION OFFER. IT HAS A MINORITY PARTICIPATION IN THREE CONCESSIONS. AT PRESENT

THE COMPANY HAS NOT LEGAL REPRESENTATIVE IN VENEZUELA. THE GOV HAS PENDING TAX CLAIMS AGAINST EL PASO-VENEZUELA WHICH EXCEDED ITS COMPENSATION OFFER. WITH THE COMPANY NOT RESPONDING TO ITS COMPENSATION

OFFER IN THE STATED TIME FRAME, THE NEWSPAPER REPORTS INTERPRET THE GOV POSITION AS CONSIDERING THE FIRM TO HAVE REJECTED THE OFFER. IF THIS INTERPRETATION PROVES CORRECT, EL PASO-VENEZUELA OIL COMPANY WILL HAVE ITS PARTICIPATION ARRANGEMENT SUBJECTED TO THE EXPROPRIATION PROCESS THROUGH THE VENEZUELAN SUPREME COURT.

6. FORMAL ACTS ARE NOW UNDER PREPARATION FOR THE OIL COMPANIES WHICH SIGNIFIED THEIR ACCEPTANCE OF THE COMPENSATION OFFERS. THE DOCUMENTS SHOULD BE READY FOR SIGNING WITHIN THE NEXT SEVERAL WEEKS. AT THE SAME TIME, NEGOTIATIONS ARE PROCEEDING BETWEEN THE GOV AND THE OIL COMPANIES ON THE TERMS OF PROPOSED TECHNICAL ASSISTANCE AGREEMENTS WHICH IT IS CONTEMPLATED THE COMPANIES WILL PROVIDE AFTER THEIR CONCESSIONS EXPIRE, AND FOR POST-NATIONALIZATION PETROLEUM PURCHASE AGREEMENTS.

7. THE TOTAL AMOUNT OF COMPENSATION TO BE PAID THE OIL COMPANIES, BASED ON THE GOV'S CALCULATION OF THE NET BOOK VALUE OF OIL COMPANY ASSETS, HAS NOT BEEN FINALLY DETERMINED. IT IS ESTIMATED AT APPROXIMATELY \$1.01 BILLION FOR CONCESSIONAIRES AND \$19.5 MILLION FOR PARTICIPANTS, BUT IS SUBJECT TO ADJUSTMENT WHEN THE AMOUNT OF 1975 DEPRECIATION OF ASSETS IS DETERMINED IN EARLY 1976.

8. COMPENSATION WILL BE PAID IN VENEZUELAN GOVERNMENT INTEREST BEARING BONDS. THE BONDS WILL PAY SIX PERCENT INTEREST AND BE FREE OF TAXES. THE BONDS WILL BE REDEEMABLE BY THE OIL COMPANIES ON A FIXED SCHEDULE OVER A PERIOD NOT TO EXCEED TEN YEARS. IT IS EXPECTED THAT THEY WILL BE REDEEMED OVER A SHORTER PERIOD.

9. WHEN COMPENSATION AGREEMENTS ARE APPROVED, THE OIL COMAPNIES UNCLASSIFIED

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MUST DEPOSIT THE QUIVALENT OF TEN PERCENT OF THEIR GROSS ACCUMULATED INVESTMENT INTO A GUARANTEE FUND ESTABISHED BY THE VENEZUELAN GOVERNMENT. THE DEPOSIT MAY BE MADE IN COMPENSATION BONDS. THIS FUND CAN BE MAINTAINED FOR UP TO THREE YEARS, AND MAY BE DRAWN ON BY THE VENEZUELAN GOVERNMENT TO COVER ANY DISCREPANCIES

IN THE PHYSICAL ASSETS OF THE FORMER CONCESSIONARIES AS SHOWN ON THEIR BOOKS, AND TO COVER OTHER UNFORESEEN DEBTS OF THE COMPANIES. AT THE TIME OF THE PRESENTATION OF THE COMPENSATION OFFERS, THE VENEZUELAN GOVERNMENT ANNOUNCED THAT \$571 MILLION OUT OF THE TOTAL COMPENSATION WOULD BE REQUIRED TO BE DEPOSITED INTO THE FUND.

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